

Title:

Outsourcing a Key Element in Dell's strategy.

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The article reports that Dell is focusing on its outsourcing strategy which reflects growth in its international business.

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It took North Carolina \$300 million in state and local subsidies to convince Dell to open a plant in Winston Salem in 2005.

Five years later, the computer maker announced it was closing the plant. The shutdown was initially scheduled to take place in January, though some workers will remain on the job until the end of October.

Dell traditionally built computers at its own plants, in and outside the United States. Today, nearly 53 percent of its products flow through its contract manufacturers, and the company has the capability "to move this percent significantly higher," Brian Gladden, the company's chief financial officer, said in a Feb. 18 conference call with securities analysts.

Within the last two years, Dell has shut five manufacturing plants, including one in Austin, Texas, that built desktop computers. Later this year, it plans to sell a plant in Lodz, Poland, that builds computers for Europe, the Middle East and Africa. The Polish plant took over production that had been done at a Dell plant in Limerick, Ireland.

Dell, based in Round Rock, Texas, still has a factory in Austin that makes servers and storage products. It also owns factories in China, Malaysia, India and Brazil. Final assembly of some laptops is done in Nashville, Tenn., said Venancio Figueroa, a Dell spokesman. Otherwise it relies on contract manufacturers.

To some extent, the change in strategy reflects the decline in the desktop share of the computer market, especially in the U.S. and Europe, relative to the growth in the laptop market.

Increased outsourcing also reflects the growth in Dell's international business. Sales outside the U.S. accounted for approximately 47 percent of consolidated net revenue in fiscal 2010, which ended on Jan. 29, according to Dell. Demand is particularly strong in the BRIC countries -- Brazil, Russia, India and China. Increased production in those countries puts them closer to the fastest-growing markets.

In another outsourcing move, Dell last year sold its remanufacturing and reverse logistics plant in Lebanon, Tenn., to Genco Supply Chain Solutions.

Another significant change in Dell's strategy is the use of retailers. Until two years ago, Dell did not sell through retailers because it wanted to avoid the cost of using an intermediary. It could make more money by selling directly to consumers through the Internet. Direct sales also gave Dell more flexibility. But now Dell products are sold by retailers such as Wal-Mart, Best Buy, Staples and France-based Carrefour, the world's second-largest retailer, at 56,000 stores worldwide, according to Gladden.

Consumer sales account for about 25 percent of its revenue, while commercial orders, including sales to government agencies, account for about 75 percent.

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By William Armbruster

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